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Ten Talking Points About the U.S. Manufacturing Sector

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Manufacturers Alliance/MAPI Board members recently requested that we put together some salient talking points about the state of the U.S. manufacturing sector. In the worst economic climate since the 1930s, and at a time of intensified political change, manufacturers are experiencing difficulties in articulating a clear and strong message about the health of their sector and how policy change might affect it. What follows are 10 summary talking points intended to convey an accurate picture regarding the current state of U.S. manufacturing and some of its key issues. Footnotes suggest further background reading for more detail on some of the crucial points, with links to the sources.¹ These talking points barely scratch the surface, so, when needed, we will provide further information. As always, member comments to the author are welcome.

1. Despite perceptions that American manufacturing is disappearing, the **quantity** of manufactured goods produced in the United States has kept pace with overall economic growth for the last 90 years. Since 1947 **value added in manufacturing** has grown sevenfold, the same as gross domestic product (GDP). While **employment** has steadily **declined** in the sector, **one in six private sector jobs** is still **in** or directly **tied to manufacturing**.
2. When measured in **value added** production, manufacturing is about 12 percent of GDP, down from about 27 percent in the early 1950s. This is due primarily to **higher productivity** and **lack of pricing power** and the sustained growth of the services sector. Between 1987 and 2008, **manufacturing productivity** grew by **103 percent**, about double the total for all private business. Due largely to increased international competition, **prices** of manufactured goods rose only by about **2 percent** per year since 1960, compared to **3.7 percent** for the entire economy.
3. U.S. manufacturers do well in global competition by **keeping costs under control**. Due in large part to enhanced productivity, **unit labor costs** in U.S. manufacturing **have declined by 40 percent** relative to the **average of 14 principal industrial country competitors** since 1986.²
4. U.S. manufacturing continues to be a **source of innovation**. It still accounts for **35 percent** of value added in **world high technology product production** and has a **trade surplus** in revenues from royalties in manufacturing processes. Just **four manufacturing industries** account for **56 percent** of **all private sector R&D**: computers and electronics, chemicals, aerospace, and automotive.³
5. Manufacturing accounts for over **one-fifth** of all **energy** use in the United States. **Energy efficiency** in manufacturing has **increased by 43 percent** since 1987 alone, much better than the 33 percent in other sectors. The U.S. industrial sector has **reduced CO₂ emissions by about 11 percent** since 2000 and is projected to **reduce total energy consumption** by 12 percent by 2030.⁴
6. Manufacturing production always **fluctuates more than the overall GDP**. The **current recession** in manufacturing is the worst since the Great Depression. MAPI forecasts a **decline of nearly 12 percent** in manufacturing production in 2009, not nearly as bad as the 20 percent annual declines in the years 1930-1932, but significantly worse than the projected **2.9 percent decline in GDP**.⁵

¹ MAPI reports (with few exceptions) are available free of charge to member companies and are for purchase to nonmembers (generally at \$50). In the following footnotes, MAPI publication titles are linked for members to download. A link to the MAPI store is provided for nonmembers to purchase these publications.

² ["International Comparisons of Manufacturing Productivity and United Labor Costs Trends 2007, Revised,"](#) U.S. Bureau of Labor Statistics, March 3, 2009.

³ National Science Foundation, [Science and Engineering Indicators 2008](#) (Washington: National Science Foundation, 2008), Chapters 4 and 6.

⁴ Garrett Vaughn, [How Much Will Americans Pay To Meet President Obama's Timetable for Cutting Greenhouse Gas Emissions?](#) (MAPI Economic Report ER-676, April 2009); nonmembers [click here](#).

⁵ Daniel Meckstroth, [MAPI U.S. Industrial Outlook: The "Great" Recession](#), MAPI Economic Report ER-679e, May 2009; nonmembers [click here](#).

7. The **tax burden** on U.S. manufacturers is **higher than** for other major **competitor countries** except Japan. This is the same for both statutory and effective rates and is due in part to the capital intensive nature of manufacturing. **Reform proposals** which eliminate important preferences, such as the **foreign exclusion** or last-in first-out (**LIFO**) accounting, hit manufacturers harder than other sectors. The **plan by Representative Charles Rangel (D-NY)**, Chairman of the House Ways and Means Committee, to reduce corporate tax rates while eliminating many preferences **would cost manufacturers \$58 billion in increased taxes**, while **all other major sectors** would see **reduced taxes**.⁶
8. U.S. manufacturing provides **premium wages and benefits**. Current wages and benefits in manufacturing, about \$32 per hour, **are 9 percent higher** than the economy-wide average. About **three-quarters** of all manufacturing firms (and **99 percent** with 200 or more employees) offer **health-care benefits**, and pay about four-fifths of total employee premiums.
9. U.S. manufacturing is **much more engaged in global trade** than other sectors: **Fifty-seven percent** of all U.S. exports are manufactured goods. Despite a **large trade deficit in goods**, mostly due to imports of oil and of manufactured products from Asia, the United States enjoys a **trade surplus with all countries with which we have a free trade agreement**, including the NAFTA countries. In 2008, trade in **capital goods**, a strength of U.S. manufacturers, was roughly in balance while we had a \$300 billion deficit in **consumer goods**. On the negative side, U.S. exporters are **losing market share in Asia** to China and the EU.⁷
10. Most **U.S. foreign direct investment (FDI) is intended to gain access** to large and growing foreign markets. **Over 75 percent** of U.S. FDI is in **high wage countries**, including Europe, Japan, Australia, New Zealand, and Singapore. Foreign affiliates of U.S. firms sell nearly \$4.7 trillion abroad, much more than the \$3 trillion in sales by foreign affiliates in the United States. U.S. firms earn more than **150 percent more in profits** from their foreign affiliates than do U.S. affiliates of foreign firms.⁸

⁶ Kevin S. Markle and Douglas Shackelford, [Do Multinationals or Domestic Firms Face Higher Effective Tax Rates?](#), National Bureau of Economic Research, Working Paper 15091, June 2009. See also Jeremy Leonard, [A Closer Look at the U.S. Corporate Tax Burden: Economic Effects of Fundamental Reform](#), MAPI, September 2008; nonmembers [click here](#).

⁷ Ernest Preeg, [China Displaces the United States as Dominant Exporter of Manufactures in Asian Markets: What Happens Next?](#), MAPI Economic Report ER-673, March 2009; nonmembers [click here](#).

⁸ [An Ownership-Based Framework of the U.S. Current Account, 1998-2007](#), Bureau of Economic Analysis, January 2009 (includes all non-bank affiliates).